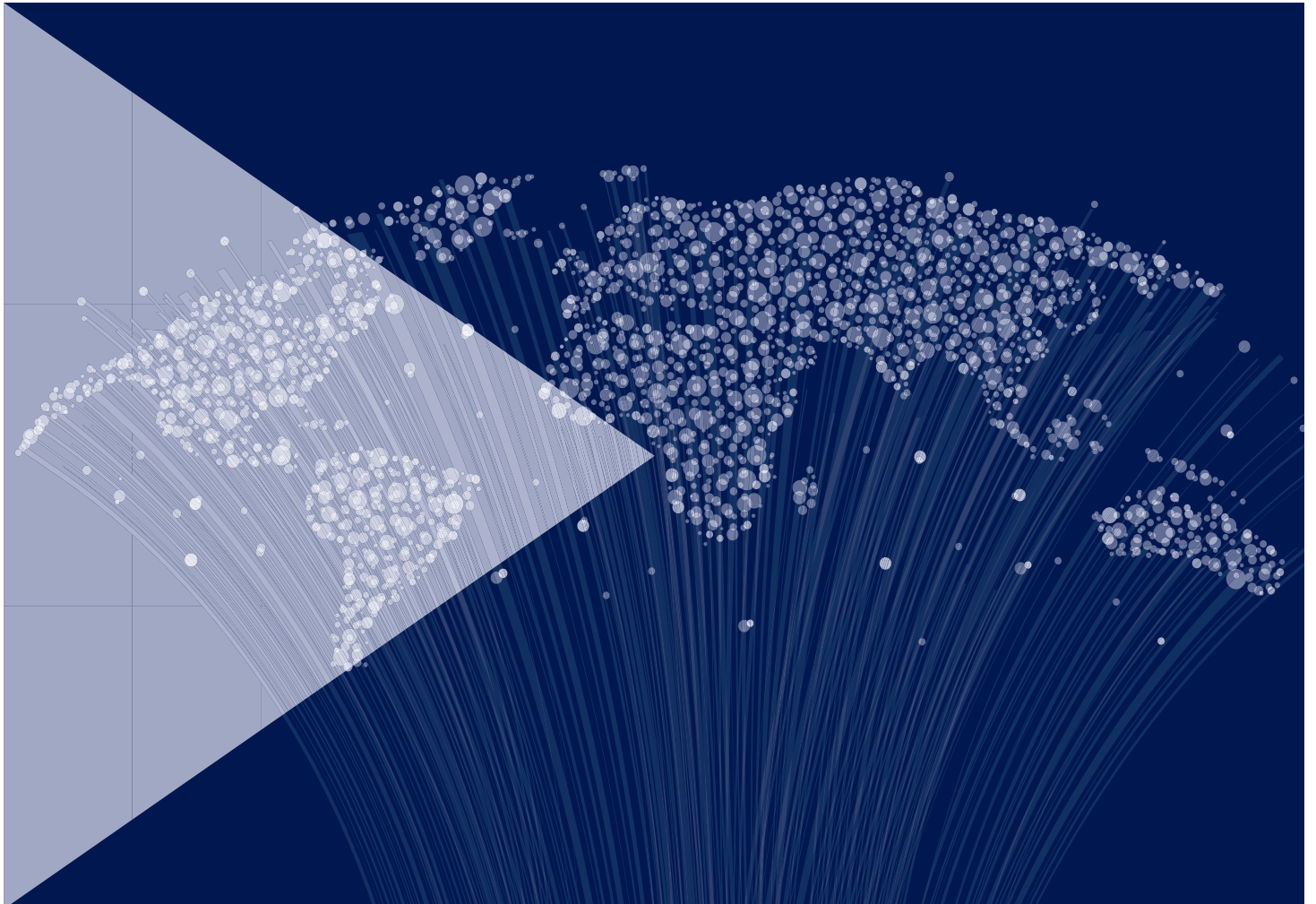


Global Agenda

# Outlook on the Global Agenda 2012



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## Introduction



**Børge Brende**  
Managing Director,  
World Economic  
Forum

**cri-sis** [krah-y-sis] **noun, plural -ses** [-seez], **adjective**

1. A stage in a sequence of events at which the trend of all future events, especially for better or for worse, is determined; turning point
2. A condition of instability or danger, as in social, economic, political, or international affairs, leading to a decisive change

Source: dictionary.com

Many points in the global political economy are under enormous strain. The West is wrestling with an economic crisis that has been underway for over three years, while Asia is managing its ascent through myriad micro-problems brought on by rapid growth. Many parts of the Middle East are facing wrenching political change. Africa is facing economic, political and humanitarian challenges. On all fronts – from the political and economic to the environment and the technological – the global agenda in 2012 is full with items that require global solutions.

The short-term picture in many pockets of the world is bleak; yet, humanity as a whole is in the middle of an unbroken winning streak. The global population has risen more than sixfold since 1800, yet life expectancy has more than doubled and real income has multiplied over nine times. Individuals are less likely to die as a result of childbirth, disease, war, murder or natural disaster than their ancestors. Since 1995, the average person earns more than three times as much money, eats one-third more, buries one-third fewer of her or his children, and can expect to live one-third longer.

Optimists are likely to see 2012 as an important historic juncture when the shape of the global frameworks that will help humanity through the 21st century started to become clear. It is a year when the world will begin to come to terms with a new political, economic and technological order that requires new approaches to problem solving, new models for the conduct of human affairs, and new ways of relating to each other and the world in which we live. If we are to thrive as a global community of almost 10 billion – the projected population by 2050 – these new models are not optional, they are an absolute necessity. Human ingenuity got us into this mess, and it will get us out.

The *Outlook on the Global Agenda 2012* is a briefing for those answering the call to action to address the state of the world. Produced by the World Economic Forum's Network of Global Agenda Councils, it is the zenith of the Network's annual work cycle that takes this group of 1,500 world experts through issues-based collaborative workstreams culminating in an Annual Summit held in the United Arab Emirates.

In October 2011 in Abu Dhabi, discussions were dominated by the euro crisis, the political gridlock facing the world's biggest markets in the United States and Europe; the critical loss of trust in many societies in the institutions of leadership and governance; resource scarcity; demographic challenges; and the impact of new technologies on the way we live, work and relate to each other.

This report is a summary of those discussions, compiled from the contributions of many of the Global Agenda Councils.

## Executive Summary

The world in 2012 is facing challenges across numerous fronts. Participants in the Summit on the Global Agenda considered these challenges under the following six rubrics:

1. **The Global Economic Outlook:** Dominated by the crisis in the Eurozone, economic discussion is driven by the state of sovereign balance sheets. In 2008, when developed country governments stepped in to support their banking systems through the financial crisis, they brought the problem onto their own balance sheets. The world's largest economies are now facing sovereign debt crises, and this at a time when many countries are facing slow or negative growth and significant levels of unemployment. As a result, 2012 is likely to see increasing instability due to the absence of a sound and globally accepted financial regulatory system, lack of confidence in market participants or facilitators, and speculation.
2. **Global Power Shifts and Emerging Markets:** Economic and political power is continuing to move from North to South and West to East. The transition is weakening the multilateral system of global governance structured on international institutions, and encouraging the rise of regionalism across many domains of international relations, including security, trade and finance. 2012 will see accelerated transfer of influence from traditional state-centred institutions to coalitions of the willing and non-state actors, manifested in diplomacy and action by networks of actors and regional organizations. These trends reveal a shift from large, expensive, institutional power to small, low-cost, unpredictable and grass-roots sources of power, such as the Arab Spring or the *Indignados* and Occupy movements.
3. **Inclusive Growth and Employment Creation:** Persistent and sticky unemployment has become the most significant economic and political issue faced by leaders across large swathes of the world. Unemployment is a manifestation of a number of structural faults: growth is too often achieved in boom/bust cycles; global population is rising; the divide between rich and poor continues to widen; and there is an increasing gap between education, skills and jobs.
4. **Political Entrenchment and Multistakeholder Governance:** Faced with the worst economic crisis since the Great Depression, political systems in the United States and Europe have been found wanting. Decision-making gridlock in the world's largest markets has pushed global systems to the brink. Meanwhile, as governments around the world have turned inward to focus on solving domestic economic and social issues, a vacuum of leadership on global issues has been growing. Political institutions are faced with a critical loss of public trust, which is amplifying the need for direct action on behalf of a disenchanted and often desperate public. With weakening of states, new mechanisms such as multistakeholder partnerships in various forms and at different levels are expected to play a bigger role in delivering public value.
5. **Natural Resource Scarcity and Climate Change:** Stresses on natural resources and accelerating climate extremes will increasingly impact economic development and growth in many countries. Economic pressures will encourage innovation in sustainable growth technologies and models, but governments will come under pressure to set a visionary agenda for the 21st century at the UN Conference on Sustainable Development in Rio de Janeiro in June 2012.
6. **The Digital Revolution:** The Internet has become a key pillar of global prosperity. Work, leisure, consumption and policy decisions, supply chains, safety systems and communications – every aspect of modern life is shaped by the continually evolving digital world. But the infiltration of digitalism into human affairs has brought peril as well as prosperity. Non-state actors are challenging the enforcement capacity and legitimacy of the state in this digital environment. Centralized groups and hierarchies are moving towards more distributed networks, representing a shift in the balance of power. Moves by governments worldwide to tighten control over cyberspace are exacerbating tensions tied to citizens' privacy, freedom of expression and demands for more transparency. Social media and the need for security are generating a move towards a more compartmentalized and fragmented Internet.

In response to the issues outlined in their discussions, the Global Agenda Councils were challenged to come up with new models for solutions. The search is not so much for a new model to solve every problem at once, but micro-models that can address particular issues at the appropriate level. This report contains numerous examples of these, including:

- How to provide international liquidity in times of crisis through regional and global coordination
- Active collaboration between the private and public sectors to attract capital and investment and encourage entrepreneurship in fragile states
- Large-scale apprenticeships and internship programmes towards a "global pact" between the public and private sectors and civil society so every young person is employed, being educated, or both
- Total Resource Management as a new approach for resource efficient growth
- Transformation of learning through digital experience
- Institutionalized multistakeholder interactions

Global leadership cannot solve the world's multiple challenges within existing structures. Crisis leadership means using what works, innovating on the spot, being decisive while mitigating risk, and being in a position to deal with the consequences. The Network of Agenda Councils is itself an organ of adaptive leadership – an approach it is taking in these crucial years in the evolution of modern society.



## Chapter 1

# Global Economic Outlook

## Agenda Items 2012

**Public Debt Crises.** The world's largest economies are now facing the kind of sovereign debt crises once seen only in the worst cases in the developing world. This is occurring at a time when many countries are facing slow or negative growth and significant levels of unemployment. Resolving these issues without dismantling government services or further stifling economic growth will challenge many governments in the West.

**Fragile Economic Outlook.** 2012 will see industrial economies struggling to avoid recession. The shift in global trade patterns is shaping the economic outlook. As its major markets suffer, China is seeing a perceptible slowing of its growth. Unemployment will continue to be a key challenge in many countries.

**Instability of Financial Markets.** Increasing instability of global financial systems is likely due to the lack of a sound and globally accepted financial regulatory system; a failure in confidence in market participants or facilitators, and speculation. The result will be unsustainable financial and fiscal policies across different nations and resulting uncertainties in the global economic recovery. Many countries will be searching for a new equilibrium among the different sectors of the economy, new societal balance and new models of governance.

**The Rollback of Globalization.** Each of these trends will reduce social surpluses – the ability of governments to provide extensive services, employment and social protection. The social costs of economic dislocation will bring people into the streets. 2012 is likely to see increasing levels of civil unrest, calls for protectionism and other anti-globalization rhetoric as governments struggle to cope with multiplying problems with fewer resources.

## Context

The world continues to suffer from economic disruptions and is at risk of a major slowdown. The Eurozone debt crisis, US debt downgrade, growing trade imbalances, rising unemployment and distorted financial markets paint a gloomy picture. The series of crises over the last few years, and governments' response to them, have brought to a head the lack of trust in public and private sector leadership. This crisis in confidence has been building over decades as the post-World War II global order became increasingly obsolete and unable to cope with interconnected, complex global issues and trends. With the rise of income inequalities and social tensions across the globe, discontent with the current economic situation is obvious.

## Emerging Market Issues

With the shift of economic dynamism from industrialized countries to emerging markets, many parts of the world still enjoy relatively high growth rates. Changing trade routes with increasing emphasis on South-South trade is transforming global economic patterns. Stronger economic growth, however, does not exempt emerging economies from other challenges that have the potential to be destabilizing.

Emerging markets are struggling with currency volatility and volatile capital flows. These countries seek to suppress bubbles in their

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**A key obstacle to addressing global economic imbalances is the difficulty of achieving meaningful structural reforms in the respective economies including the United States and China. The US and Europe have to adjust their economic and social models, especially against the backdrop of an ageing population and mounting welfare and healthcare costs.**

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Wang Jianye, Chief Economist, The Export-Import Bank of China, People's Republic of China

economies through capital controls, fiscal policy and financial regulation. Easy monetary policy in advanced economies is exacerbating capital flows, which makes the job of containing asset prices and inflation in emerging markets harder. Rapid growth in some emerging economies is fuelling high commodity and food prices, with particularly negative consequences for the poor.

In this complex global economic environment, it is important that decision-makers not lose track of crucial longer-term challenges such as inclusive growth, sustainable development and environmental protection. With mounting short-term problems, governments are at risk of adopting short-sighted policies that can hinder their ability to respond to longer-term challenges.

## Balancing Financial Stability and Sustainable Development

Financial market development remains an important element of a sustainable global economic system. From an emerging market perspective, balancing financial stability and economic development requires tackling such issues as financial sector liberalization, access to finance for the poor and building more resilient banking systems. Containing capital flows and focusing on reforms would allow financial markets to be more dynamic and innovative without increasing the aggregate level of risk in the system. To this end, regulatory authorities must bring the financial regulatory system into the 21st century.

With the accelerating free flow of capital across borders, national regulation is not enough to stabilize the global financial system. As regulatory challenges pile up, many regulators acknowledge the need to shift from rule-based to principle-based regulation. A principle-based approach would require global agreement on the principles – in essence, regulatory values – their consistent interpretation and strong enforcement. This approach depends crucially on a global supervisor with authority.

## Towards a Multipolar Monetary System

The downgrade of US credit by rating agencies marked the beginning of what many experts at the Summit on the Global Agenda saw as a transition towards a multipolar monetary system. As the US economy and the dollar lose their magnetic pull, other poles of economic and monetary power will emerge – China in particular. Although the transition to a multipolar monetary system would be turbulent, a more diverse system may ensure greater stability of the global economy by spreading economic risk among a number of major currencies.

However, the global system may be stretched to manage the transition and establish balanced positions of international currencies by increasing their convertibility while minimizing volatility. As global imbalances worsen, resolving them will require greater coordination on the global and regional policy levels.





**A year ago, we thought we were struggling with post-crisis problems; now, we seem back in crisis mode, but with a difference. The 2008 meltdown centred on excessive leverage in the financial sector, which threatened to tip the world into a depression, not just a recession. Governments did then what they had to do, and allowed fiscal policy to take the strain of sustaining demand. The consequence in many places was that the debt problem has been passed from the private to the public sector. Now governments, especially in Europe, are struggling to gain control of their fiscal positions at a time when the economy remains weak. That struggle may take some years to resolve.**



Howard Davies, Professor of Practice, Fondation Nationale des Sciences Politiques (Sciences Po), France

### Restoring Confidence

Currently, the world's largest economies tend to be structurally biased towards the short term. Strong pressure for short-term earnings growth means many companies optimize quarterly results over meeting the long-term needs of customers and communities. Short-term electoral cycles mean governments prioritize the quick over the wise. One of the consequences of this short-termism is a chronic loss of trust in institutions, from governments to corporations. (See chapter on Political Entrenchment and Multistakeholder Governance.)

Trust needs to be rebuilt among partners in the global economy. The integrity and resilience of a region or the global economy as a whole are only as strong as the trust between partners – directly proportional to the capacity of each to adhere to commitments, enforce rules and regulations, and implement the structural reforms necessary to align with the accepted framework. While national solutions must meet regional and global standards, commitments cannot go beyond what any nation that subscribes to the framework is capable of accomplishing.

Against this backdrop, the lack of confidence in global, national and institutional leadership distorts markets and leads to the failure of coordinated decision-making. Uncoordinated policies affect many countries and worsen global imbalances. As such, new models are needed to meet these challenges.

The search for new models, however, is a challenge: at the micro level – how to do things differently with existing tools, mechanisms and institutions; and at the macro level – how to revamp global and regional governance systems to be more effective and representative. This search must focus on how to improve the competence and effectiveness of governance through a sustainable dialogue between the public and private sectors.

### Conclusion

#### An Opportunity to Mobilize Efforts

More than three years after the global financial crisis erupted, the world is still picking up the pieces. In the interconnected global economy and international financial system, the impact of a crisis in even one relatively small economy such as Greece can have enormous consequences around the world, on the volatility of markets, the fluctuations of currencies, perceptions of risk, investor confidence and on the real economy.

As the economic crisis unfolds, contagion from interconnected risks remains a critical concern. It is increasingly difficult to create firewalls to prevent contagion in a world of deepening interconnections and integration. In addition, the risk of a double-dip recession in the world economy amplifies the urgency of resolving the macroeconomic challenges.

The focus therefore must be on fostering collaboration and building trust through the construction of solid coalitions of the willing, achieving consensus on global or regional standards that are effective and binding, and raising the quality of governance in every economy.

This crisis should not be wasted, as it provides an opportunity for global leaders to mobilize their efforts in strengthening economic and financial models.

### New Models

#### New Model 1: Dealing with Euro Debt

As European leaders struggle to formulate a workable rescue plan for Europe, the sovereign debt crisis is the biggest threat to global economic stability going into 2012. The challenge is compounded by the interconnectedness of nations and economies; increasingly lacklustre leadership in Europe; and the inability of institutions to agree on a set of comprehensive and clear measures to restore confidence in the euro and define a new economic governance structure. The rescue plan needs to address the solvency problems of Greece, Italy and other weak members of the Eurozone, but also offer a vision for institutional reform to combat the root causes of the crisis and put European countries on a stable path of economic growth. It is an unparalleled challenge for European leaders.



**With the sovereign risk rising in many advanced economies, we have a risk of double-dip recession, and we are running out of policy bullets. That makes for a most dangerous situation that can lead to the global stagnation and a global financial crisis, one that could be worse than the previous one.**



Nouriel Roubini, Professor of Economics and International Business, Leonard N. Stern School of Business, New York University, USA

Short-term stabilization measures aim at ensuring solvency of EU member states, which requires restructuring of Greek sovereign debt, guaranteeing solvency of European banks exposed to sovereign debt risk, and providing liquidity. In the medium term, through 2012, leaders must facilitate credible Eurozone economic governance, ensuring fiscal responsibility through strengthening market discipline and delegating appropriate fiscal authority to the level of the Eurozone. Managing the transition to stronger governance regimes requires political commitment on the European and global levels.

Councils considering these issues at the Summit on the Global Agenda 2012 included: International Monetary System, Fiscal Crises, Europe, Systemic Financial Resilience, and Banking & Capital Markets.

#### New Model 2: Provision of International Liquidity

With accelerating global financial flows and volatile global sentiment, regional and national economies are vulnerable to systemic disruptions. Reliable mechanisms for providing international liquidity in times of crisis are required to protect macroeconomic stability. One manifestation of the emerging multipolar monetary system is a new set of regional arrangements for liquidity provision and surveillance among groups of collaborating countries.

In Asia, for instance, the Chiang Mai Initiative<sup>1</sup> is a US\$ 120 billion multilateral currency swap arrangement of the Association of Southeast Asian Nations. Russia, Kazakhstan and a number of Commonwealth of Independent States (CIS) economies have set up a Eurasian fund.<sup>2</sup> Bolivia, Colombia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela have recently established a Latin American Reserve Fund.<sup>3</sup> In Europe, the European Financial Stability Facility (to be transformed into the European Stability Mechanism) has been created to deal with the current crisis.

These models may prove to be effective on the regional level. But global governance authorities need to learn from these and develop a systemic mechanism for coordinated liquidity supply on the international level. In an environment where several international currencies share leadership and are considered close substitutes in investor portfolios, it is important to preserve the availability of bilateral or multilateral swap lines, as was the case during the financial crises of 2008.

Thus, a global safety net centred on the International Monetary Fund (IMF) and the central banks would ensure liquidity provision goes smoothly across different blocs. The role of the IMF as an international “stabilizer of last resort” is crucial – as perceived changes in creditworthiness of one currency's issuer could lead to massive portfolio shifts and liquidity crunches (such as the dollar shortage of 2008) that can destabilize the banking sector. Such measures as making the swap agreements permanent, expanding the IMF's Flexible Credit Line and establishing a foreign exchange reserve pooling mechanism under the IMF's supervision would ensure stability of international liquidity provision for economies in distress.

The Global Agenda Council on the International Monetary System was instrumental in developing this model.

#### New Model 3: Mitigating Risks in Financial Conglomerates

Global and national regulatory frameworks, risk management practices and business models in the financial services industry have been undergoing scrutiny and reform. However, risks to financial stability are still among the most important issues going into 2012. In the financial sector, a new model for building resilience and mitigating the risks of financial conglomerates is required, particularly those arising as the world reconsiders the financial architecture under which the global economy will operate. Varying legal systems and standards across countries remain an obstacle for mitigating risks.

The Global Agenda Council on Systemic Financial Risk proposed to further develop a new approach: flexible ring-fencing of certain risky financial activities. This model is already on the radar of the UK authorities. To achieve this, a cross-border resolution with a bail-in of the private sector is an essential element to prevent taxpayers having to carry the burden of risk in the end. Moreover, the risk should remain within the unit carrying out the activity without contagion. Operational ring-fencing of certain financial activities may allow for that – provided there is appropriate transparency so a functioning market can consider and evaluate the risk.

<sup>1</sup> [http://www.iie.com/publications/chapters\\_preview/345/3iie3381.pdf](http://www.iie.com/publications/chapters_preview/345/3iie3381.pdf)

<sup>2</sup> [http://acf.eabr.org/media/img/eng/about/documents/Treaty\\_for\\_establishment\\_of\\_anti-crisis\\_fund.pdf](http://acf.eabr.org/media/img/eng/about/documents/Treaty_for_establishment_of_anti-crisis_fund.pdf)

<sup>3</sup> [http://untreaty.un.org/unts/144078\\_158780/72/14162.pdf](http://untreaty.un.org/unts/144078_158780/72/14162.pdf)

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**After being lulled into a false sense of security during the so-called great moderation, the financial crisis of 2008 and 2009 was a shock to the way people viewed the economic world. With recovery in late 2009 and 2010, many thought the crisis had been contained and put behind us. Recent events and market activity, however, illustrate that the actual and potential volatility of financial markets is likely to remain elevated for some time. Neither the macroeconomic nor the regulatory policy responses have provided confidence that the official sector will mitigate, rather than contribute to, instability going forward. A reversal of the current focus on short-term fixes instead towards fundamental long-term, pro-growth reforms will be necessary to change the perception of a highly uncertain economic outlook.**  
 ”

Randall S. Kroszner, Norman R. Bobins  
 Professor of Economics, University of Chicago, USA

This may increase the costs for risky activities by increasing their cost of capital, and potentially increase the costs to individual “real economy” customers (or ultimately deprive them of a service that is no longer economical for the provider), at the gain of removing interconnectivity of risks and associated societal costs in a crisis.

The Council proposed that private institutions should define the areas they would ring-fence in dialogue with their stakeholders – regulators, customers and shareholders. The resolution regime and mechanics of the bail-in are crucially important for such a proposal to work and for investors to be comfortable with it. They will need to be set at the regulatory level for reasons of certainty and enforceability.

The inconsistencies in the resolution of banks in the United States and Europe serve as a useful reminder of this principle. In addition to a cross-border resolution with a bail-in at the institutional level, coordinated macro-prudential regulation is necessary to address systemic risks in a more comprehensive way. In such regulation, consideration needs to be given to the “shadow finance” system and which institutions might be invited into the flexible ring-fence approach due to systemic considerations.

**Acknowledgements**

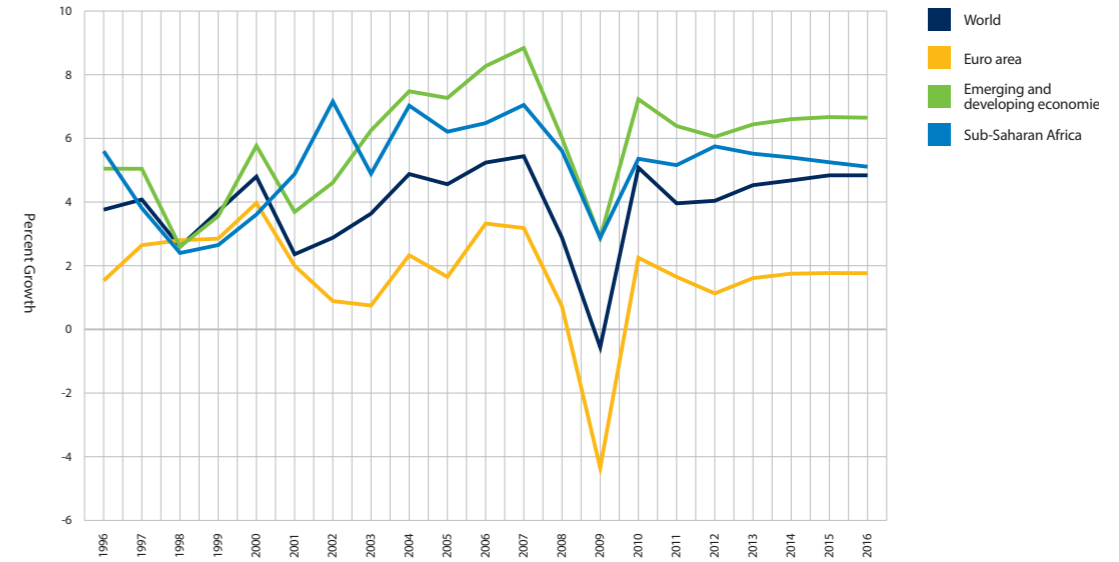
This chapter was drafted by Liana Melchenko and Ethan Huntington based on the work of the Global Agenda Councils listed below. The views expressed here do not represent views of individual Council Members, nor their affiliated institutions.

- Banking & Capital Markets
- China
- Competitiveness
- Emerging Multinationals
- Europe
- Fiscal Crises
- Global Trade Systems
- Insurance
- International Monetary System
- Long-term Investing
- Private Capital
- Real Estate
- Systemic Financial Resilience



**Macroeconomic Environment Going into 2012**

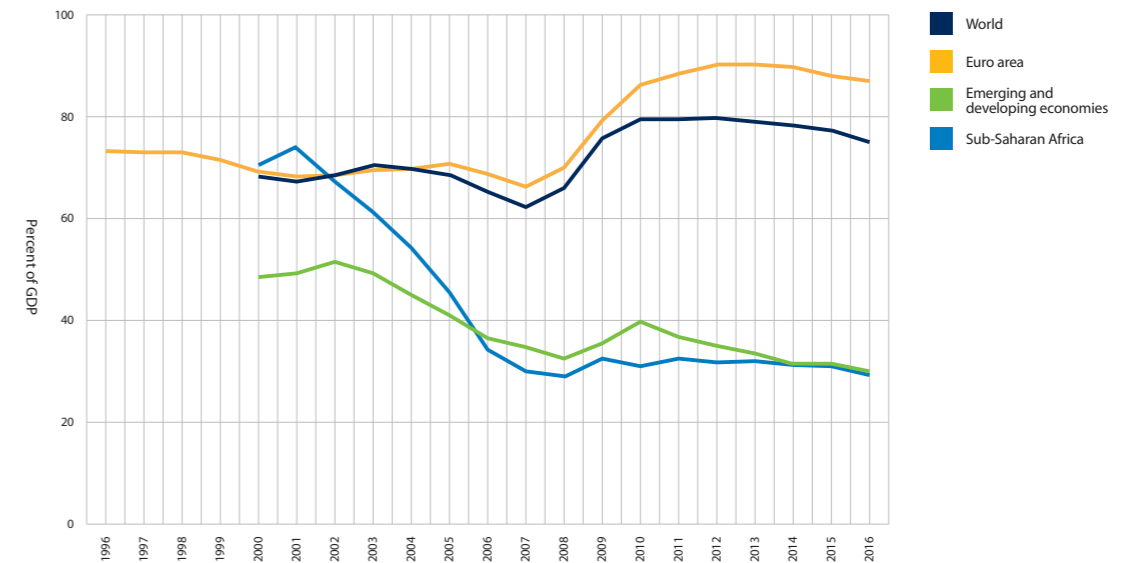
**GDP Growth Prospects**



Source: International Monetary Fund, World Economic Outlook Database, September 2011

**Macroeconomic Environment Going into 2012**

**Forecast of Gross Government Debt as a Percent of GDP**



Source: International Monetary Fund, World Economic Outlook Database, September 2011.

## Chapter 2

# Global Power Shifts and Emerging Markets

## Agenda Items 2012

**Power Sharing Between North and South.** Increasing economic and political power sharing between North and South will be manifest in the continued weakening of the UN system and the rise of regionalism.

**Accelerated Transfer of Influence.** The shift from traditional state-centric institutions to coalitions of the willing and non-state actors will be manifested in diplomacy and action by networks of actors and regional organizations.

**Shift of Power.** There will be a shift from large, expensive, institutional power to small, low-cost, unpredictable and grassroots sources of power, such as the Arab Spring, the *Indignados* and the Occupy movements.

## Context

2012 will witness consolidation of trends that challenge the state-centred model of the world, with the United States and allies at the centre of global power. As the year unfolds, influence will move away from the traditional state powers to regional hegemony, such as China, South Africa and Brazil, and from United Nations-centric systems to regional or decentralized cooperation mechanisms.

The legitimacy of the G20 as a new mechanism of global governance will be scrutinized through the year as the Mexican presidency strives to demonstrate concrete results after five high-profile years. In addition, networks of actors, coalitions of like-minded but disparate forces, and unexpected partnerships at the grass-roots level will continue to challenge the ability of the nation state to lead.

Emerging economies and private actors will consolidate their share of and influence in the world economy. Their contribution to global growth will far outstrip that of Northern economies, while they will be called upon to support Northern currencies, and even potential rescue plans. Nonetheless, the risk of emerging economies losing steam will be ever present, while markets remain unreliable and economic ties to the old world weigh heavily on trade and demand.

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**Arriving at effective international agreements on issues ranging from climate change to nuclear proliferation and to trade and financial regulation will require buy-in from both the North and the South; but the novel combination of rich economies having to strike bargains with much poorer but also bigger and more powerful emerging ones is likely to be the source of many genuine differences as well as misunderstandings.**

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Moisés Naím, Senior Associate, International Economics, Carnegie Endowment for International Peace, USA

At a micro level, emerging multinational enterprises will continue to demonstrate their ability to invest successfully, while the new values and working culture they embody may give a glimpse into the future corporation. In the best-case scenario, industrialized economies will “muddle through” their debt crises and stagnating growth, but will emerge from the uncertainty with their traditional upper hand in entrepreneurialism, technology and innovation.

## Geopolitical Power Shifts

The shift in power from North to South and West to East has been underway for some time. In 2012, it is likely that power shifts will be manifest in regionalism and flexible, lightweight coalitions of actors over large hegemony and global institutions. Geography is the new organizing principle.

Beleaguered by domestic politics, unemployment and debt crises, not to mention its wars abroad, the United States has ceded its role as “benevolent hegemon”. But the US decline has left a vacuum – no other nation or group of nations seems willing or able to fill the role of global leader. As the situation in Libya deteriorated throughout 2011, the United States embraced a “leading from behind” approach, supporting NATO’s bombing campaign, and allowing Israeli-Palestine negotiations to simmer on the back burner. The absence of the United States will be severely evident in Iraq, Afghanistan and neighbouring countries, where the military drawdown will have profound consequences for regional security.

Across the world, regions are reorienting priorities inwards. With the exception of France in the aftermath of its 2011 G20 presidency, Europe may remain inward looking throughout 2012, although some energy will be devoted to reframing its relationship with growing neighbours such as Turkey and the nearby countries of Central Asia.

Brazil and Mexico will play an increasingly important role in Latin America, as the former has emerged as the leader in development aid and investments, and Mexico has engaged in highly effective diplomacy on a global scale. The influence of the United States in the region continues to be an important factor, although regional dialogues and investments have grown in importance and priority across Latin America.

In Africa, regional dialogues and powers will absorb more and more of leaders’ agendas and attention. South Africa has established itself as the diplomatic and economic powerhouse on the continent, leading coalitions of neighbours in a multitude of efforts, such as the Southern African Development Community and the Zimbabwean political negotiations. How the African Union and Arab League adjust to the political transformations of Tunisia, Egypt and a once-generous benefactor – Libya – will be closely watched by external powers. Meanwhile, Saudi Arabia has expanded its embrace, especially through the Gulf Cooperation Council and diplomacy in Yemen, Libya and Bahrain.

China’s political and economic policies inevitably exert a substantial impact on the world. Yet China sits in an awkward position between developed and developing countries and between the South and the North. The transitional nature of the country’s system at home and its position abroad means that its foreign policy is evolving. As a result, China remains reluctant to consistently claim a leadership role in global affairs. There is no clear leadership role for China in 2012. How it asserts its power through the year will be defined on an issue-by-issue basis.<sup>1</sup>

The world is unlikely to see new powers rise to global leadership in 2012, in part because these countries see regional backyards as the most immediate playing fields for their influence. Regional powers such as Turkey, Brazil, China and Saudi Arabia will be bolder in their bilateral and regional diplomacy throughout 2012, with increasing flows of aid monies, investments and presence in regional mechanisms. Global institutions are increasingly dysfunctional, as demonstrated by the paralysis of multilateral trade negotiations, budget crises in major UN organizations and their increasing fragmentation. Although many international agencies continue to deliver important services and valuable policy dialogues, nations and civil society observers are growing impatient with the glacial pace at which multilateral mechanisms deliver results. The experience of attempted UN reform has diminished the appetite of even the most ambitious reformers. These institutions are unlikely to adapt or be replaced by new global institutions quickly enough to meaningfully address the major challenges (financial, trade, environment, security, etc.).

<sup>1</sup> China Regional Agenda Council Workplan 2011-2012.



**Emerging and developing countries currently account for 41% of G20 GDP and 30% of global trade. By 2050, these figures could rise to nearly 70% and six of the world's seven largest economies may well come from the emerging world (Brazil, China, India, Indonesia, Mexico and Russia). This major transformation could profoundly alter the current balance of power in the international arena, triggering opportunities but also significant risks and potential conflicts**



Moisés Naím, Senior Associate, International Economics, Carnegie Endowment for International Peace, USA

Enthusiasm for new, flexible cooperation arrangements requires a tacit agreement that the old models should not stand in the way of progress and results. “Coalitions of the willing” – lightweight arrangements between nations or between nations and private actors – may take up some of the slack left by a distracted hegemon and weakened global institutions. NATO’s performance in Libya has re-energized the coalition, the Eurozone group has reconfirmed its indispensability and will seek new vitality in 2012, while coalitions such as the Gulf Cooperation Council and the Rio Group will seek to play greater roles in regional affairs.

Giant regional funds, such as the Chiang Mai Initiative, the Eurasia Fund and the Latin America Reserve Fund, will allow like-minded neighbours to support their own financial needs without permission or conditions from the traditional international financial institutions (see chapter on the Global Economic Outlook). The successful collaboration between private funds and global institutions (e.g. the Global Fund to Fight AIDS, Malaria and Tuberculosis), presents a new model for international cooperation driven by results. The C40 Cities Climate Leadership Group’s approach to climate change hints at valuable progress to be made at the local level, despite the existential crisis of multilateral talks.

However, geography as an organizing principle may have its limitations, as coalitions must not only be “willing” but also “able”. The noble objectives of regionalism often fall victim to squabbling within the family when resources and outcomes are still a zero-sum game. Regional mechanisms such as the Organization of American States, the African Union, ASEAN and the European Union must face important existential questions and learn to evolve with the changing times. Are the primary drivers of these regional arrangements – be it security, energy, economics, politics, or ethno-religious ties – sufficiently strong to bind nations and overcome state-centric tendencies?

To what extent can new regional architecture maintain a voluntary approach, and when are coercive measures necessary to keep countries in line? If coalitions operate on a purely voluntary basis, how can nations ensure longer-term strategies and outcomes? How can coalitions be called to account if the results of their cooperation are suboptimal?

#### Southern Diplomacy

The new confidence of the South and emerging economies is an unpredictable force. Long gone are the G77 days when developing nations focused their coordination on developing country priorities. Today’s Southern confidence is far more nuanced and realpolitik – witness the calls to prudence and order from emerging economies to industrialized nations, or the BRICS insistence that Europeans approach the IMF for debt relief under the same conditions they faced in the past.

South-South coordination will flare up in multilateral contexts such as WTO rounds, the G20 Mexican presidency and the upcoming Rio+20 Summit. As 2011 eroded Western powers’ moral authority, emerging economies may feel emboldened to refuse formulas or solutions once purported as sound, thereby shaking the foundations of certain international organizations and arrangements.

Multilateral fora will grapple with the increasing pressure of Southern confidence and ambiguity, especially the G20, which will face festering doubts over its ability to seize the day. Meanwhile, pressing negotiations over new global governance schemes have lost momentum in the face of these new arrangements – regionalism and coalitions – which provide some results. In addition, budding democracies may be unable to help noticing the tarnished sheen of older democratic systems that have produced mixed results for equality, social welfare and education.

#### Growth, Markets, Trade and Investments

Global economic power will continue to accumulate in the emerging economies, while new private actors from non-traditional locations will expand their reach and influence across markets. The rise of Asia in the global economy will have particularly sharp ramifications for demand, global supply chains and trade.

2012 will see continued strong growth in emerging economies, which will partly offset stagnant growth elsewhere. Improving livelihoods in developing economies, Asia especially, will spur demand and put pressure on manufacturers to consider relocating production of certain high-value goods. Nonetheless, some emerging economies should feel the slowdown in the United

States and Europe, namely Mexico and Central America and certain Eastern European or Central Asian economies.

As markets remain uncertain, emerging economies will be vigilant regarding currency stability, access to cheap capital and slowdowns in demand. Europe and the United States will struggle to emerge from the doldrums, fighting back gloomy forecasts and sluggish job creation. However, industrialized regions will maintain the upper hand in technology development, productivity and the financial sector.

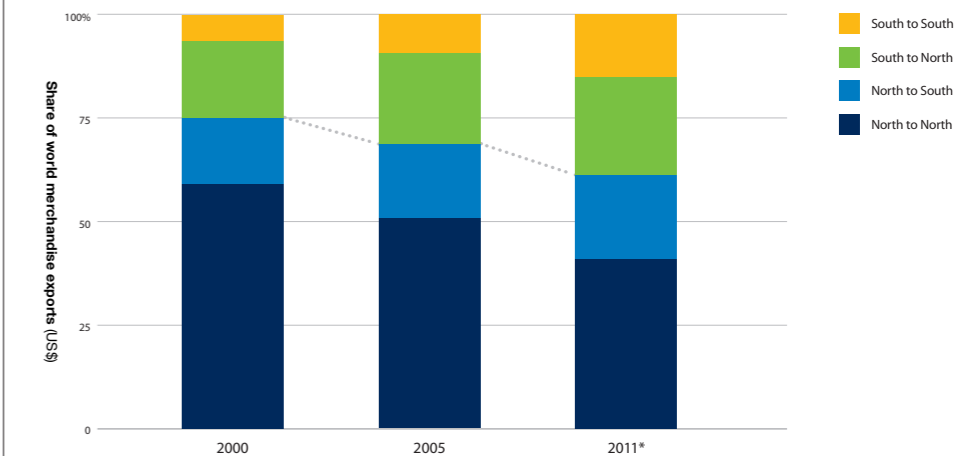
The flow of trade and investments will reflect the overall shift of economic energy. South-South and West-East trade will shore up the global outlook. The entry of Russia into the World Trade Organization will provide a second wind to global trade in 2012. Supply chains will continue to relocate and consolidate in emerging economies, fuelling even faster growth in South-South trade.

A reconfiguration of the Doha Development Round may encourage nations to accelerate their pursuit of far-reaching bilateral or regional trade agreements, shoring up the economic dimension of regionalism. Gradual development of local markets in emerging economies may transform local manufacturers from suppliers of the North to real competitors for markets in the South.

Expected acquisitions by emerging multinationals and sovereign wealth funds in Southern economies should give M&A bankers something to look forward to. However, not all sovereign wealth funds (SWFs) are created equal, and some Gulf SWFs that assumed high risk may seek safer positions in 2012. The world may reconsider whether global governance arrangements are desirable for SWFs – although it is not obvious where the forum for such negotiation might be.

Debt is for sale. A trend to watch will be whether large emerging economies develop an appetite for industrialized economies’ debt, particularly Europe’s. Calls by countries such as India and China for industrialized countries with debt crises to face the full force of IMF conditionality may yet amount to good politics. Europe may need to turn to the IMF for refinancing.

#### 40% of exports now originate from developing and emerging markets Share of global exports



Source: International Monetary Fund, Direction of Trade Statistics 2011

Note: “South” represents IMF developing and emerging markets and “North” represents IMF advanced economies. Data for 2011 is January through June.



## Social Power Shifts

2012 may see additional surprise victories by small, networked, low-budget actors. Wikileaks, Anonymous, the *Indignados* and Occupy movements, masses of empowered young people in political protests and a network of anonymous investors known as the “markets” have each demonstrated an ability to challenge the state. How the state engages and grapples with unpredictable sub-national actors such as these will speak volumes on the future of official power.

The power of information technology and data in the wrong hands will continue to make news. Wikileaks followers threw down the gauntlet in 2011. Centuries of diplomatic tradition and secrecy were blown open by a small group of civilians. When traditional power responded, decentralized hackers retaliated with their own form of punishment via online attacks and credit card fraud. 2012 may see more revelations of this kind.

The combination of free social media and politically motivated, networked groups has shown their panache for challenging the established order from London to Cairo and Tehran. Information and communication technologies have enabled like-minded movements, such as *Indignados* and Occupy, to transmit their calls to action around the globe.

An example of decentralized, yet influential, actors can be found in the remarkable interaction of the bond markets with European leaders throughout the Irish, Portuguese, Greek, Italian and Spanish debt crises. The reactions of diverse markets have weighed heavily on the Eurozone negotiations during 2011. With each small step forward announced by Eurozone leaders, global markets express approval or disapproval instantly, or even pre-emptively – often threatening the viability of the agreements reached.

## Conclusion

### New Growth Paradigms

The race for natural resources will enhance the attractiveness and influence of relatively weak players, many of which are fragile states blessed with an abundance of iron ore, gold, diamonds, gas or oil. Emerging economy players will continue to consolidate and seek new resource investments far from home. Companies originating in Brazil, China, India and South Africa will increase competition for such riches, putting established extractive relationships into question.

These new multinationals paint a mixed picture – while some operate seemingly without scruples, other emerging multinationals have embraced unique models of corporate responsibility and sustainable business practices. Evidence suggests that their presence in resource markets may enhance opportunities for green growth.

The economic shift may raise fundamental questions about models of growth and current paradigms for economic prosperity. While inequality features as a major theme of debates over economic policy in Europe and the United States, in growing emerging economies it may appear as a tolerable by-product of economic success – for the time being.

While more nations and private actors promote sustainability as a desirable quality of economic activities, others continue to operate with immense and yet unaccounted costs to the environment. Civil unrest, migration and popular protests may be linked to dissatisfaction with inequality across the developed and developing world.

## New Models

### New Model 1: A New Model for Engaging North Korea

The traditional Cold War alliance framework for engaging North Korea's nuclear ambitions centred on the United States and its principal military and political partners in Northeast Asia. In its place, the Korea Council advocates the development of a new model built on:

- Multiple channels of public and private sector communication with North Korea
- Fostering institutional change in North Korea through transparent data provision and training of cadres in economic policy
- Combining deterrence with peace-enhancing measures such as military confidence building and further multilateral security cooperation in Northeast Asia
- Delinking humanitarian assistance from political conditions, while engaging the issue of North Korean production and food-import capabilities

## New Model 2: Preparing for a Multipolar Monetary System

Preparing for a multipolar monetary system – with a set of regional arrangements working in collaboration with traditional international financial institutions – may improve the world's liquidity and ability to address crises. The IMF may consider reforming its own governance to adapt to a multipolar monetary system, for example, by allocating seats on the board exclusively to representatives of regional blocs, thereby simplifying and rationalizing the IMF decision structure. This model was conceived by the Council on the International Monetary System.

## New Model 3: Achieving Sustained Double-digit Growth in Africa

Africa's outlook is optimistic and its narrative is changing from a developing continent in need of aid to a prime opportunity for growth. Many African countries are aspiring to emerging economy status within the next two decades by achieving sustained double-digit growth. To this end, the Global Agenda Council on Africa proposes that regional governments focus on unlocking new market opportunities in agriculture and extractive industries through better contact management, regional infrastructure development and improved revenue sharing.

One of the key challenges in fragile states is how to attract investors and corporate engagement, including and beyond extractive industries. The Global Agenda Council on Africa will seek to engage business leaders on how they can play a constructive role in fragile states through private capital, the role of corporations and entrepreneurship. The Council proposes new methods of bringing investment to fragile states that promote development, including new risk-sharing and financing mechanisms, managing investors from emerging nations, engaging corporations, fostering value chains and leveraging consumer power.

## Acknowledgements

This chapter was drafted by Isabel de Sola and Martin Naegle based on the work of the Global Agenda Councils listed below. The views expressed here do not represent views of individual Council Members, nor their affiliated institutions.

Advanced Manufacturing  
Climate Change  
Geopolitical Risk  
Emerging Multinationals  
Fragile States  
International Monetary System  
Region-focused Councils: Africa, China, Korea, India, Latin America and Pakistan  
Social Media  
Trade



## Chapter 3

# Inclusive Growth and Job Creation

### Agenda Items 2012

**Increasing Inequalities.** The divide between rich and poor is widening in both advanced and developing economies. According to the International Labour Organization (ILO), approximately 61 million people have as much income as the bottom 3.5 billion.

**Increasing Population.** At the end of October 2011, the planet's population reached 7 billion. This milestone came very quickly in demographic terms. It took over 50,000 years for world population to reach its first billion; it took fewer than 25 years to add the last 2 billion. There are 77 countries with populations growing at rates that imply doubling in 40 years or less. Those countries, mostly in sub-Saharan Africa, are among the poorest and most vulnerable in the world. They have the weakest capacity and institutions to manage their population growth. For them, rapid population growth poses significant health, economic, social, political and ecological challenges.

**Growing Unemployment – Especially among Youth.** Unemployment levels have been increasing in almost every country, hitting youth particularly hard. In Ireland, youth unemployment has risen from 9% in 2007 to 27.5% in 2010. An ILO report shows that the absolute number of unemployed youth fell slightly since its peak in 2009 from 75.8 million to 75.1 million in late 2010, a rate of 12.7%, and is expected to decline to 74.6 million in 2011, or 12.6%. However, the report attributes this more to youth withdrawing from the labour market rather than finding jobs. This is especially true in the developed economies and the European Union.

**The Increasing Gap between Education, Skills and Jobs.** Quantitative and qualitative mismatches exist between the demand and supply of education, skills and jobs. In Pakistan, 40% of children do not receive primary school education, contributing to myriad problems, including a rise in extremism. In Spain, youth unemployment stands at 45%. In South Africa, the tertiary education enrolment rate is less than 20%, imposing limitations on long-term growth.

### Context

The idea of inclusive growth is built on the premise that broad-based growth provides the foundation for the pace and sustainability of income growth. Income growth based on inherently unequal opportunities undermines long-term growth by stifling incentives for broad swathes of the population and sowing conflict and instability.

In the current economic climate, many countries – from Paraguay to India – are experiencing impressive growth rates. However, the benefits to the lower echelons of society have been inconsequential or slow to emerge. Inequality, if left to fester, threatens political and economic stability.

The foundation of inclusive growth is employment. However, as the West struggles with fiscal crises and many Middle Eastern countries face structural challenges for full employment, unemployment has become a major issue for 2012. The United States is emblematic of this phenomenon. Although traditionally held up as having one of the world's most efficient and dynamic labour markets, US unemployment now stands at an immovable 9% despite the return of fragile economic growth. Other advanced economies are suffering even more, with Spain's unemployment rate at over 20%.

At the same time, inequalities exist between and within countries. Leaders need to do

“

**Unemployment is one of the most serious issues facing the world today. Not only is it affecting the hundreds of millions of people out of work; it is hurting their families and breaking down the way societies function. When young people with education are unable to find employment, frustrations build. That can impact our world for generations to come.**

”

Lars H. Thunell, Executive Vice-President and Chief Executive Officer, International Finance Corporation (IFC), USA

more than just tweak the current system; they will have to make deep structural changes. Unequal growth manifests itself on many levels and needs to be tackled with manifold strategies.

### A Social Case for Employment

There is a clear social case for employment beyond economics. Studies show that well-being and self-esteem are highly linked to employment, with a loss of employment potentially causing more emotional distress than the loss of a loved one.<sup>1</sup> Overcoming this very human side of the fallout of the global financial and economic crisis of 2008 is daunting. As former US President Harry Truman said: “It's a recession when your neighbour loses his job; it's a depression when you lose your own.”

Unemployment affects the least protected segments of the labour market, most notably the young, where unemployment can reach double or more of the general rate in many countries. This is causing increasing political and social unrest and, if not addressed urgently, risks creating a “lost generation” of the labour force. UN reports show that the world will miss the economic benefit of 1.8 billion young people.<sup>2</sup> Population reports warn that the lack of education, infrastructure and jobs will mean a generation's potential will be wasted.<sup>3</sup> In many cases, even when there are jobs, they do not provide meaningful work.

The supply side of the employment equation is equally critical to ensure the workforce has the necessary skills to perform in a rapidly changing global economy. Yet, while improving skills is a critical part of the solution to increasing employment, proposals are sorely lacking on how to actually revive job creation – the demand side of the employment equation. When governments have little or no ammunition left in their fiscal arsenals to spur demand, solutions involving multiple stakeholders become all the more pressing.

To spur employment, efforts must be made to restore and increase confidence in the economies of many countries. A crisis of confidence is holding back firms from hiring. In addition, a strong link exists between barriers to business and employment levels; as such, it is critical to remove bottlenecks by cutting unnecessary red tape and simplifying regulations.

The private sector needs new models to help it navigate the present difficulties, and should be part of the dialogue on jobs. What is the social role of business in times of crisis? Should not businesses retain employees instead of firing them in difficult times? For the common good, should they not add more employees to their payrolls?

### Education, Entrepreneurship, Innovation and Job Creation

A mismatch exists in many countries between the quality of education and the skills required in the job market. The unemployment crisis needs to be tackled with new models for skills development and education, and new approaches to investment and entrepreneurship.

Innovation and human capital development are major growth drivers. It is critical to teach and reward innovation and creativity, e.g. by using new media and bringing business people and entrepreneurs into schools. Some examples of short-term measures to incentivize entrepreneurship and innovation include targeted education programmes and business incubators on university campuses.

The Global Agenda Councils on Emerging Multinationals and on Youth Unemployment presented a new concept, Train Employ Nurture 10 Youth (TEN Youth), a pilot project aimed at addressing youth unemployment and opening a new chapter in recruiting and developing talent.

TEN Youth focuses on young people between the ages of 18 and 24 that have never held a real job; have completed high school and perhaps one or two years of college but that do not have a university degree; and do not have a specific skill. These criteria characterize the core of unemployed youth. The concept of TEN Youth is that a multinational enterprise will train, employ and nurture 10 young people from this cohort, with a goal of an 80% or greater retention rate in 24 months.

<sup>1</sup> See article by Kate Strully on health and job loss: <http://www.ncbi.nlm.nih.gov/pubmed/21305391>

<sup>2</sup> “The State of World Population 2011” UNFPA, <http://foweb.unfpa.org/SWP2011/reports/EN-SWOP2011-FINAL.pdf>

<sup>3</sup> <http://www.guardian.co.uk/environment/2011/oct/26/un-economic-benefit-young-people>



**We face a global social time bomb. Possibly it is more accurate to say a series of time bombs because it's different in different countries and it's derived from a shortage of enough jobs – enough good jobs to go around and widening social inequalities.**



Stephen Pursey, Director, Policy Integration Department and Senior Adviser to the Director-General, International Labour Organization (ILO), Geneva

The enterprise will:

- Provide the candidates with three to six months of training in a specific skill
- Employ young candidates in a real, not “dead-end” job (e.g. in IT, accounting, maintenance, operations, customer service, marketing, etc.)
- Mentor candidates over the two years; participating youth will benefit from role models; mentoring is crucial for development and retention

The benefits to the enterprise will include loyal and productive young employees; a non-traditional avenue for recruitment and new pool of young talent; and a concrete contribution to rebuilding confidence. The Councils believe that enterprise education should supplement formal education.

#### Sharing Best Practices

Models for sharing best practices exist or are underway within the Global Agenda Councils. Initiatives include online repositories of best practices for employment and involving women in economic development (i.e. Knowledge Bank). An online repository will include examples of employing men and women across countries and occupations, moving jobs to people and improving employability. These good practices will be derived from the full breadth of employers – business, civil society, educational institutions, government and international organizations.

Solutions must be shared across geographies, industries and stakeholders. Good practices will be collected from stakeholder contributions, interviews and questionnaires. Emphasis will be on collaboration across the Global Agenda Councils, with common interests including youth unemployment, fostering entrepreneurship and demographic changes. Examples of good practices include the North African diaspora working on youth training programmes, the Recruit programme in Japan and circular migration.

In addition to existing good practices, the Knowledge Bank will include examples of “future thoughts” – recently implemented initiatives worth watching. In addition to good practices, the Knowledge Bank will include thematic reviews, analysis and case studies.

The model will go beyond an online resource, encompassing systematic multistakeholder dialogue to promote solutions. The next phase will be implementing these practices across countries, organizations and industries.

#### Conclusion

##### Ring-fencing is Not an Option

New models of inclusive growth are urgently required to enable economic development to be spread through all sectors of society, bringing nations together rather than splitting them apart. At the same time, unemployment is becoming entrenched in many countries, representing the most significant impediment to political stability and economic development. Social unrest and political instability are focusing leaders on the seemingly intractable problem of unemployment.

In the short term, governments must engage with business and civil society to implement tangible solutions. In the longer term, policy-makers need to think in more nuanced terms about the relationship between jobs and growth – does employment create growth, or vice versa? These issues cannot be addressed separately – the linkages between them are critical and demand a multistakeholder approach. “Ring fencing” is not an option; it is everybody's problem.

#### New Models

##### New Model 1: Reframing Skills Development

The Councils on Ageing Societies, Education Systems, and Employment & Social Protection encourage policy-makers to reframe skills development as life-long capacity development. The era of “study, work and retire” is over. Life-long learning, portfolio careers and ageing workforces are the new reality. The life-long work cycle starts with early nutrition and brain development, followed by transformational education experiences focused on exposure to choices and options, and then ongoing vocational training and retraining, especially of the older workforce.



**You now have 210 million people out of work. That's the highest on record, but you have millions more, particularly women and young people, not on the statisticians' books and then you have 45 million young people every year seeking to enter labour markets that can't accommodate them.**



Sharan Burrow, General Secretary, International Trade Union Confederation (ITUC), Brussels

##### New Model 2: Teacher Development – the “Teachable Fit”

New models for teacher recruitment, retention and development are emerging to support the fundamental role that teacher effectiveness plays in expanding educational opportunity. One idea is the “teachable fit” concept, the idea not to focus on education and training per se, but on retraining and up training. This is a new approach for reducing the talent mismatch.<sup>4</sup>

##### New Model 3: Entrepreneurial Education Starts in Early Childhood

The Council on Fostering Entrepreneurship recommends that entrepreneurial education should be supported and encouraged from early childhood through tertiary education and beyond. Critical thinking, creativity, social responsibility and the ability to develop ideas into marketable solutions within a complex environment must be central to quality education.

This can be accomplished through:

- Targeted education programmes: Create short-term, practical programmes that can equip youth with the necessary skills to generate new business ideas; these courses should be coached and led by training professionals and the private sector so young people are exposed to an entrepreneurial culture
- Entrepreneurship and innovation: Business incubators should be established on every university campus; creation of start-ups should be incentivized by fostering and facilitating the services they need such as business angles and venture capital

These measures aim to foster entrepreneurship and innovation, but may not be sufficient to create the volume of jobs that are needed now. The main source of job creation is not start-ups but, rather, established companies that are scaling up. Policy measures and private sector initiatives should reflect this reality.

##### New Model 4: Short-term Measures to Boost Job Creation

Large-scale apprenticeships and internship programmes: There should be a global pact among the public and the private sectors and civil society aimed at ensuring that every young person is attending school, employed or both. The private sector, supported by the public sector, should generate large-scale apprenticeship and internship programmes to bring the unemployed into the corporate culture and equip them with the necessary skills and attitudes for employment. This is a measure already in place in Australia.

Needed and feasible infrastructure projects: Large infrastructure projects can generate significant employment, while improving the business environment and a country's competitiveness. Mobilizing resources may be difficult for many countries. Access to private capital through public-private partnerships or sovereign funds could be envisaged.

#### Acknowledgements

This chapter was drafted by Patrick McGee based on the work of the Global Agenda Councils listed below. The views expressed here do not represent views of individual Council Members, nor their affiliated institutions.

Employment & Social Protection  
Youth Unemployment  
Emerging Multinationals  
Education Systems  
Ageing Societies  
Population Growth  
Women's Empowerment  
Skills & Talent Mobility  
Fostering Entrepreneurship

<sup>4</sup> <http://us.manpower.com/us/en/multimedia/fresh-perspective-hardest-jobs-to-fill.pdf>

## Chapter 4

# Political Entrenchment and Multistakeholder Governance

### Agenda Items 2012

**Widening Leadership Vacuum.** As governments have turned inwards to focus on domestic economic and social issues, there has been a widening leadership vacuum on global issues.

**Widespread Mistrust in Public Institutions.** Public institutions have a widespread trust problem. They are perceived as serving their own needs rather than the public interest. They have been seen as incapable of dealing with the economic and environmental crises, delivering sustainable economic growth and jobs and levelling rising inequalities. Eroding trust in governments and markets further weakens the outlook for economic recovery. In the long term, this may result in greater civil unrest, political instability and extremism.

**Activism on the Rise.** Citizens – in particular the younger generation – who have been significantly affected by the economic downturn, high levels of unemployment and the erosion of opportunity, are becoming more active in demanding representative, fair, transparent and efficient institutions.

**New Mechanisms to Deliver Public Value.** With weakening of states, new mechanisms such as multistakeholder partnerships in various forms and at different levels are expected to play a bigger role in delivering public value.

### Context

The new context is connected economics and disconnected politics. Economic processes are increasingly interconnected. The current economic crisis has shown how contagion in one part of the global financial and economic system quickly spreads across national borders. But the same is not true in the arena of power: national political jurisdictions have been slow in adapting to a fast-moving, globalizing world. Western governments have watched helplessly as the economic situation has deteriorated and economic activity and jobs have disappeared.

### Broken Social Contract – Inefficient States and Deficient Democracies

2011 will go down in history as a year in which the economic and financial crisis parlayed into a serious crisis of global political leadership. After exhausting the monetary and fiscal remedies at hand, governments of advanced economies lost agility and capacity to deal with the crisis. Overwhelmed with domestic pressures, governments struggled to effectively coordinate their actions and forge cross-border solutions. As a result, there has been a wholesale loss of trust in political institutions. According to a recent global survey, respondents in half of 99 countries surveyed say they do not have confidence in their national governments (see Graph 1).

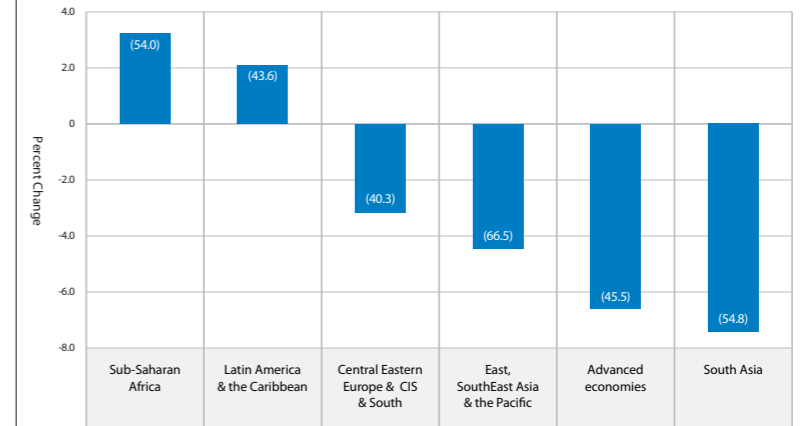


Leaders need to balance response to short-term crises against longer-term issues of protection of the climate and investment in infrastructure. When the pie is perceived to be shrinking, contests can become bitterly divisive ... There is now an urgent need for coalitions of citizens, business and the public sector to bring back integrity and sound leadership to tackle problems across the board.



Clare Lockhart, Director and Co-Founder, Institute for State Effectiveness (ISE), USA

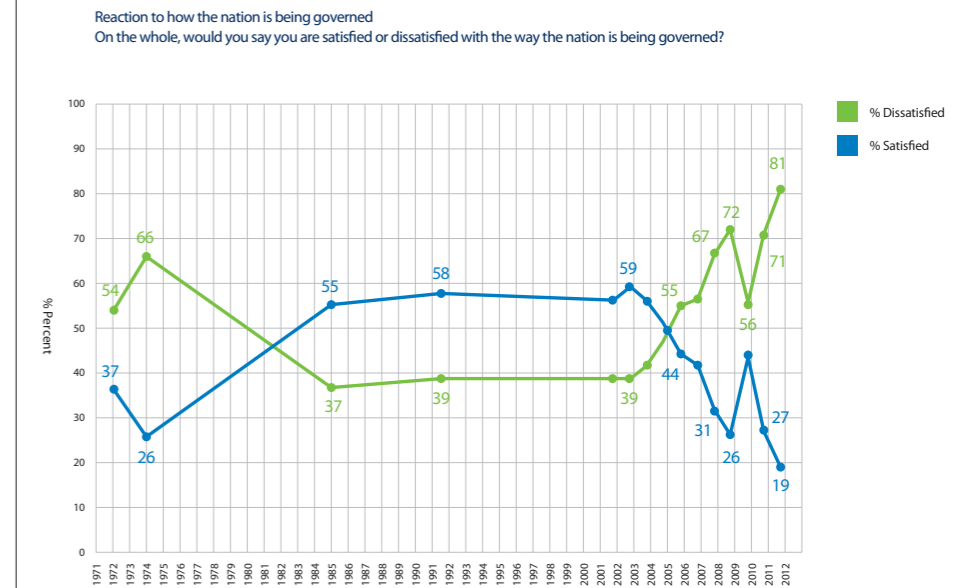
**Graph 1: People Reporting Confidence in Their National Government, 2006 to 2010 (percentage change)**



Note: The number in parentheses refers to the percentage of survey respondents that said they have confidence in their government in 2010. The graph includes the percentage of respondents reporting "Yes" to the following question: "In this country, do you have confidence in each of the following, or not? How about national government?" For the Middle East and North Africa, the data refer to 2008 and 2009 due to low response rates in 2006 and 2010. Source: *World Work Report 2011: Making markets work for jobs*, 31 October 2011 [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_166021.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_166021.pdf)

In some countries, public disapproval of the government action is at the highest point in recent decades (see Graph 2).

**Graph 2: Confidence of Americans in their Government**



Source: Gallup



**Global and domestic policy-makers need to focus on framing policies and allocating resources rather than being focused on conventional national security. They will have to create institutions that are more robust, responsive and transparent, and move towards impartial oversight by enabling governments. There is the need to plug opportunities of graft and arbitrage in the public system and provide the private sector with a more level playing field. Each of these has a long list of follow-up actions.**



Sania Nishtar, Founding President, Heartfile, Pakistan

The financial meltdown in 2008 was a failure of economic regulation and corporate responsibility. Regulators became complacent about excessive risk-taking by financial institutions. Banks made risky bets on complex structured products without understanding the interconnectedness of risk. Advanced economy governments spent billions of taxpayers' money to bail out "too big to fail" financial institutions, and were forced to pursue austerity measures, cutting healthcare, education and social services and putting at risk the future competitiveness of their countries.

In 2012, the capacity of many governments to provide efficient public goods will further dwindle as a result of low growth, decreasing tax revenues and rising levels of public indebtedness.

#### Broken Decision-making and Consensus-building Mechanisms

Examples of political paralysis were seen around the world in 2011. In the United States, partisan bickering surrounded debate over increasing the debt ceiling and cutting the deficit. The Eurozone crisis is fuelling the rise of the anti-establishment and anti-immigrant far right across Europe, which is gaining increasing political weight in a number of countries.<sup>1</sup>

Technocratic governments in Europe lack legitimacy. The Iraqi 249-day record of a country without a government was beaten by a large margin by Belgium. Investors have been punishing governments for their inability to deliver meaningful solutions to the crisis by requiring higher risk premiums on short-term borrowing.

Progress stalled on global issues ranging from carbon dioxide emissions to trade and poverty reduction due to dysfunctional global governance and coordination systems and the lack of resources. For example, the IMF estimates that 23 million people, mostly in highly vulnerable low-income countries in Asia and sub-Saharan Africa, could be joining the 1.2 billion people worldwide who live below the poverty line if a recession in the advanced economies occurs. This would be the result of reduced export demand for exports, investments and remittances.<sup>2</sup>

#### Established Inequality and Corruption

The structural frameworks sustained by many Western governments in the last decades created disproportionately favourable conditions for the wealthiest. For example, according to a recent report by the US Congressional Budget Office, after-tax income for the highest-income households grew more than it did for any other income group between 1979 and 2007. Government transfers and federal taxes aimed to even the income distribution became less redistributive during the same period.<sup>3</sup>

Furthermore, the biggest publicly traded companies bore a smaller degree of social responsibility than other commercial actors. According to a report by Citizens for Tax Justice, 280 of the largest publicly traded US companies paid income taxes equal to 18.5% of their profits in the last three years, while the official corporate rate was 35%.<sup>4</sup>

In Europe, a similar situation was seen in France, where according to the Conseil des prélèvements obligatoires, the tax rate for the top 40 French publicly traded companies (referred to as CAC 40) was 8%, versus 22% for small and medium-sized enterprises in 2009, with the official rate being 33%.<sup>5</sup>

Burdensome regulations and inefficient and corrupt public institutions remain important barriers to inclusive economic growth and job creation. According to a recent *Doing Business 2012* report measuring business regulation, 51 procedures are required to acquire construction permits in Russia and 1,420 days are required on average to enforce a contract in India.<sup>6</sup>

The concurrent economic and political crises have called into question not only the structure of modern capitalism as a way to organize society, but also the very nature of democracy and elections. Elected politicians are increasingly not trusted to act in the public interest. Checks and balances, accountability and transparency mechanisms seem to be broken to various degrees in countries around the world.

<sup>1</sup> *The New Face of Digital Populism*, 7 November 2011, [http://www.demos.co.uk/files/Demos\\_OSIPOP\\_Book-web\\_03.pdf?1320601634](http://www.demos.co.uk/files/Demos_OSIPOP_Book-web_03.pdf?1320601634)

<sup>2</sup> *Managing Global Growth Risks and Commodity Price Shocks – Vulnerabilities and Policy Challenges for Low-Income Countries*, International Monetary Fund, 21 September 2011, <http://www.imf.org/external/np/pp/eng/2011/092111.pdf>

<sup>3</sup> US Congressional Budget Office, "Trends in the Distribution of Household Income Between 1979 and 2007", 25 October 2011, <http://www.cbo.gov/ftpdocs/124xx/doc12485/WebSummary.pdf>

<sup>4</sup> *Corporate Taxpayers and Corporate Tax Dodgers*, 2008-2010, 3 November 2011, <http://www.ctj.org/corporatetaxdodgers/CorporateTaxDodgersReport.pdf>

<sup>5</sup> Conseil des prélèvements obligatoires, 2009

<sup>6</sup> *Doing Business 2012: Doing Business in a More Transparent World*, 20 October 2011, <http://www.doingbusiness.org/-/media/FPKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

The elections mechanism does not appear to bring the brightest and most capable leaders into office, but rather those who can best work the system. Once power is acquired, an abyss emerges between politicians and ordinary citizens until the next elections. The short-term span of the electoral cycle and increasingly costly election battles, which cannot be sustained without external financial support, cast a shadow on the prospects of long-term policy-planning benefitting society at large.

#### Global Protest and More Social Unrest to Come

The world in 2011 was riven with social strife. The Arab Spring stemmed from a crisis of governmental accountability and legitimacy in many countries of the Arab world. India saw similar protests against abuse of power and impunity in politics and the domination of economic conglomerates with privileged connection to the government. Protests against government austerity measures shook a number of European countries. The Occupy movement reflects widespread dissatisfaction over income disparity and scepticism over governments' capacity to remedy it.

Bleaker economic prospects, political instability, decreasing opportunities for social mobility and increasing inequalities are likely to further foment social unrest, political populism and extremism. At the same time, this presents a unique opportunity to transform public activism into a permanent force to keep public institutions accountable, and to rethink the way the global political and economic systems function.

#### Conclusion

##### A Highly Uncertain Political Future

Protesters on the streets of New York and New Delhi have questioned the basics of the existing economic and political systems. However, there are no bold, credible ideas on how to reform of the system. The discussion ranges from the need for bigger and smarter government, which will restore market trust, to empowering new, multistakeholder problem-solvers to lead from the grass-roots level. With elections forthcoming in several important countries in 2012 and some political leaders already having lost their offices to the financial crisis, the political future remains highly uncertain.

#### New Models

##### New Model 1: Coordinated Governance, or "Coalitions of the Willing"

Solving the crisis of governance will require strengthening both top-down (government) and bottom-up (grass-roots) linkages, creating a constructive dialogue or "coalitions of the willing" among political institutions, business, civil society organizations and individuals. This dialogue should aim to formulate optimal policy based on shared benefits, and then effectively align policy and action among the involved parties. A new global governance mechanism for developing strategic public-private partnerships will be needed in many areas. The following are recommendations to move forward.

- Coordinated governance based on the rule of law. There is a growing disconnect between traditional frameworks for international law and the reality of governance. The traditional model of global governance is based on the international law of sovereign states and multilateral institutions. The existing model does not address the dynamics between rule of law and the ever-widening variety of organizations and systems of coordinated governance through which diverse constituencies are supplementing or standing in for the state. The new model is to encourage multistakeholder conversations so that rule of law is part of governance and economic development. The model of "coordinated governance" refers to relevant actors implementing shared solutions of global or common problems in accordance with rule of law principles and other fundamental norms.
- Emboldened new leadership. The world needs new models of leadership – leaders who are willing and able to make bold decisions and are not hidebound by established conventions or vested interests. Young people in particular should play a role. Effective international cooperation that achieves results – as opposed to ineffectual lowest-common-denominator approaches – would bolster the legitimacy of leaders with a global long-term vision.
- Shift from short-term to long-term thinking. Government and business need to address the misalignment of short-term incentives versus longer-term goals to support durable competitiveness. Streamlined governments aligned with the needs of society, markets,

producers and consumers and the creation of business models will help generate financial and other incentives for longer-term thinking. Long-term investors can help stabilize financial markets, impact the time horizon of corporate managers and fund important long-term projects such as infrastructure and the development of a low-carbon economy.

- Broaden the responsibility base. The Guiding Principles on Business and Human Rights endorsed by the United Nations Human Rights Council in June 2011 is an example of an emerging model of shared responsibility and accountability of a variety of actors in the space formerly occupied only by states. The principles extend the international human rights regime, previously applicable only to the state actors, to the corporate sector. Implementing the principles will require building the capacity of multiple stakeholders to engage in dialogue and resolve problems.
- Institutionalize multistakeholder interactions. Institutions need to develop the capacity to engage in multistakeholder governance and leverage new networking organizations. For example, national competitiveness councils are an effective mechanism to institutionalize the multistakeholder discussion on improving competitiveness at the national level. New forms of interdisciplinary governance are necessary to manage scarce natural resources (see chapter on Natural Resource Scarcity and Climate Change).
- New partnerships for development. In fragile states, the private sector and public-private-civil society partnerships are becoming increasingly important providers of public goods. One of the key drivers of poverty alleviation is economic growth. Partnership agreements to develop private enterprise concluded by parties that observe the principles of good governance have proven more effective than foreign aid. Governments in developing countries must strengthen the conditions for business development by reducing administrative burden and ensuring high levels of competition to render the markets more efficient.

In addition, the new frameworks will have to ensure that development is environmentally sustainable and socially inclusive, and women's empowerment and youth mobilization play an important role. Businesses will have to develop new markets that work for the poor, as well as affordable new products, such as a US\$ 100 computer. They must ensure that their practices are sustainable (e.g. through the proposed Business for Sustainable Development initiative) from the initial stages of the supply chain to the end consumer.



## New Model 2: Reinventing Democracy

Popular protests in many countries against the abuse of power by corrupt politicians, excessively risk-taking financial institutions and structural flaws in capitalism provide an opportunity to redesign the way governments function. The new reality demands a new democratic model in which citizens are fully integrated into the decision-making process and that ensures public accountability and transparency.

- A new testing ground for democracy. With the fall of several authoritarian regimes in the Arab world and other leaders challenged by popular protests, the region is providing a testing ground for a new start. A new governance model for the region involves a paradigm shift to a bottom-up approach that acknowledges the aspirations of civil society. The three enabling pillars of this new approach are: the development of a clear path ensuring macroeconomic stability and exploring region-wide solutions; stakeholder engagement expanding youth employment, enhancing business stability and promoting inclusive growth; and building institutions of good governance.
- Streamlining government. Governments are under pressure to deliver more with less; they need to adapt and continuously evolve to create value. Governments need to rapidly respond to changing conditions and citizens' expectations, and build capacity to operate effectively in complex, interdependent networks of organizations and systems to produce public value. Governmental centralized and complex structures must become more competitive and efficient. Competition should be introduced in the public sphere to promote innovation and effectiveness. Flatter, agile, streamlined and tech-enabled (FAST) government is needed today.<sup>7</sup> In most countries, the civil service systems require considerable modernization. Governments need to incorporate the notion of "customer satisfaction" the same way private sector does. They also need to benchmark themselves and let citizens assess their public service delivery. Full transparency and openness through open government and open data are objectives towards which governments should strive, particularly when trying to root out inefficiencies.
- Balancing regulation and deregulation. A large body of new regulation is produced every day at transnational and domestic levels. This not only increases complexity, but also adds inefficiencies. Both regulation and deregulation may have counter effects and can be taken advantage of by malicious actors. For example, free trade zones are characterized by illicit trade, offshore taxes and tax evasion. A new approach combining the efficiency benefits of deregulation with the transparency provided by controls should be encouraged. The rules need to be simplified and streamlined to make them more transparent, better understood and easier to enforce.

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Anti-Corruption  
 Arab World  
 Competitiveness  
 Future of Government  
 Fragile States  
 Illicit Trade  
 India  
 Institutional Governance Systems  
 Long-term Investing  
 New Models of Leadership  
 Organized Crime  
 Poverty and Economic Development  
 Rule of Law  
 Youth Unemployment

<sup>7</sup> Global Agenda Council on the Future of Government, "The Future of Government: Lessons Learned from around the World", 2011, <http://www.weforum.org/reports/future-government>

## Chapter 5

# Natural Resource Scarcity and Climate Change

### Agenda Items 2012

**Continuing Environmental Headlines.** Stresses on scarce natural resources and accelerating climate extremes will continue to impact economic development and growth in many countries.

**Green Growth Innovation.** Economic pressures will encourage innovation in sustainable growth technologies and models.

**Developing Bottom-up Responses.** In the absence of a strong international agreement, governments will continue developing bottom-up responses to shift national economies to a sustainable growth path and build more climate resilient and resource efficient economies.

**Rio+20 to set sustainable growth agenda ... or not.** Governments will come under pressure to set a visionary sustainable agenda for the 21st century at the UN Conference on Sustainable Development in Rio de Janeiro in June 2012. A breakdown in negotiations is likely to draw attention to the critical fractures in global governance models.

### Context

In October 2011, parts of the city of Bangkok were devastated by dramatic flooding, expected to affect national economic growth this year by 1% to 1.7%. At the same time, millions have suffered from a major food crisis and dramatic droughts in the Horn of Africa. In many other countries – Pakistan, India, China, United States, France and Switzerland – water shortages forced authorities to either reduce the generation capacity of hydropower plants or temporarily shut down thermal power plants requiring water for cooling purposes.

In November 2011, the International Energy Agency (IEA) reported that carbon emissions during the year 2010 were the highest in history. It concluded that, without immediate transformative change, all permitted CO<sub>2</sub> emissions to remain below 2°C global warming would be locked into existing infrastructure by 2017, and that we are likely to experience global warming of up to 5°C within this century. The world has not experienced such temperatures for more than 10 million years. According to IEA, without significant transformation at an accelerated pace and scale, future generations will be condemned to a profoundly less liveable world, suffering from irreversible and catastrophic climate change. Arguably, the statement that the risks of climate change are small is untenable.

Several Global Agenda Councils<sup>1</sup> shared the perception that the economic, societal and environmental risks are too important to maintain status quo. Without a change in direction, the world is hurtling towards environmental, economic and social disaster, impacted by climate extremes and increasing scarcity of natural resources such as water, energy and food.

2012 can become an important catalyst for a new, low-carbon and resource efficient growth agenda. In June, world leaders will gather in Rio de Janeiro for the United Nations Conference on Sustainable Development (Rio+20) with the objective “to secure renewed political commitment for sustainable development, assess the progress to date and the remaining gaps in the implementation”<sup>2</sup> of a comprehensive sustainable development agenda.

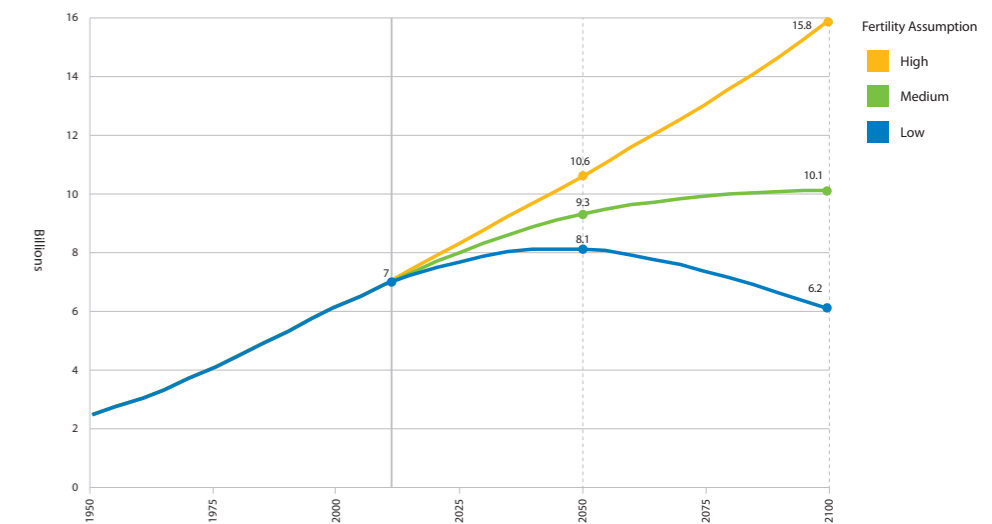
### Main Trends and Drivers

World population is now 7 billion. Although the speed of population growth has been declining since the late 1960s, the accumulating numbers of people have meant that each additional billion has been added more rapidly than at any other time in history: the last 2 billion in a record 12 years each. At this pace, the UN reckons that, even with fertility decline in some of the world’s largest countries, there will be between 8.5 and 10 billion people by 2050.

### Economic Growth and Prosperity

The World Bank estimates 6% median economic growth rates in developing countries. The more numerous, prosperous and increasingly urban world population will demand more food, energy and water resources to meet its needs. By 2030, continued economic growth will have raised millions out of poverty, enlarging the global middle class by up to 3 billion people, mainly in Asia. Growing consumption will increase the demand for all major resources (energy, water, fibre, food) by 30-80%.<sup>3</sup>

### UN Projections of World Population Under Three Fertility Assumptions



<sup>1</sup> Global Agenda Councils on Climate Change, Water Security, Food Security, Energy Security, New Energy Architecture and Poverty & Economic Development

<sup>2</sup> <http://www.uncsd2012.org/rio20/index.php?menu=61>

<sup>3</sup> McKinsey Global Institute, McKinsey Sustainability & Resource Productivity Practice Briefing Note, November 2011.

### Water-Energy-Food-Climate Nexus

Strong economic and population growth and urbanization trends have contributed to put the world's food, water and energy resources under significant stress. Meeting the future demand for these resources requires significant investment and integrated policy solutions. Important trade-offs require coordination among diverse stakeholders. A transformation towards total resource management for sustainable economic growth is a key challenge of the early 21st century.

Water is at the heart of the global resource security challenge. We are now heading into a projected 40% gap in the ratio of supply and demand of freshwater by 2030. The water scarcity challenge will have significant repercussions on both agriculture and energy.

According to the Food and Agriculture Organization, an estimated 850 million people around the world are undernourished, and 3 billion more people will be added to human population by 2050. World agricultural output must increase by 70% to nourish this growing population. To feed a growing population, the pressure on using less water, not more, will be acute.

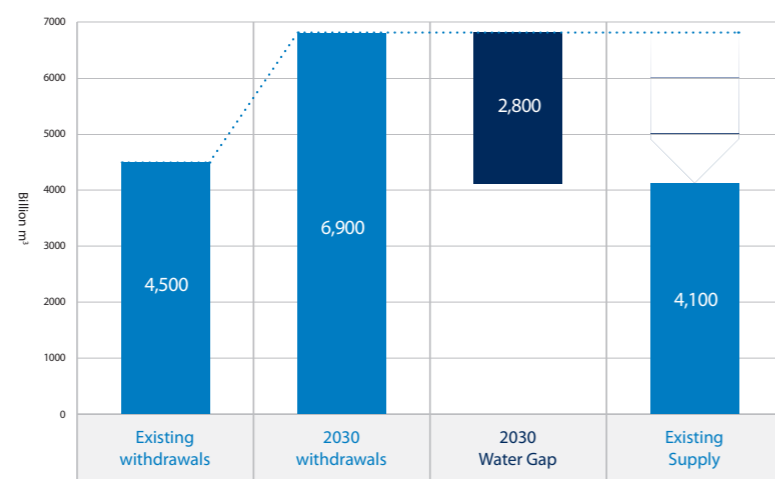
Climate uncertainty and weather extremes also highlight increased risk, adding to price volatility and livelihood concerns – particularly for smallholding farmers with limited or no access to agricultural risk management options. Agriculture is a major contributor to GHG emissions, accounting for 14% directly and up to 30% indirectly through land use change. Across the globe, agriculture is the largest user of water resources, averaging 70% primarily for irrigation – with implications for other competing uses for water, such as energy.

Major energy sources – thermal power plants and hydro plants – are major water consumers and rely on the availability of water. Globally, 75% of the electricity mix in 2030 will be provided by conventional thermal power plants, heavily dependent on freshwater for cooling processes.<sup>4</sup>

Additional forms of energy, such as solar, thermal and shale gas, also demand high volumes of water and add to the stress on the water-energy relationship. In the United States, for example, where 39% of freshwater withdrawals are used for energy, a projected 50% increase in energy demand by 2030 will translate into a 165% increase in freshwater withdrawals without any efficiency gains. China and India will experience similar trends.

**Figure 1: Global Gap between Existing, Reliable Supply and 2030 Water Withdrawals without Efficiency Gains**

Billion m<sup>3</sup>, 154 regions



Note: Adapted from 2030 Water Resource Group (2009), *Charting Our Water Future*

### An Urgent Need for a Timely Response

These trends require new ways of thinking about future economic growth. How can growth and human development be decoupled from use of scarce natural resources and drastically reduce carbon emissions? Time is very limited if irreversible catastrophes are to be avoided and

<sup>4</sup> International Energy Agency (2009), *World Energy Outlook*

productive natural assets are to be sustained. Yet, the huge infrastructure investment needs are a challenge as fiscal exchequers are constrained, especially in countries suffering the most under the current economic and fiscal crises.

Despite strong scientific evidence of climate change, the collective action of sovereign states negotiating in the UN multilateral process is not yet delivering the necessary ambition and scale required to mitigate it. However, it remains an important forum for all countries to engage. It should, as soon as possible, provide clarity both on the legal form of an agreement and the necessary ambition.

In parallel to the United Nations Framework Convention on Climate Change (UNFCCC) negotiations, major economies are demonstrating remarkable leadership and are hard at work exploring ways to tackle climate change while ensuring economic growth; and drafting national policies on renewable energy, efficiency and, in some cases, carbon tax and trade mechanisms. Some emerging economies are investing heavily in green growth infrastructure as a means of making their economies cleaner, clever and competitive, and reacting to increased pressure on scarce natural resources by rising living standards, growing population and rapid urbanization rates.<sup>5</sup>

However, there is the new economic normal in Europe, North America and other regions: a combination of constrained fiscal exchequers, lower growth expectations and higher unemployment rates. A timely and adequate response is a top priority to many governments affected by the current economic and fiscal crisis. In this context, public-private leadership is needed to catalyse effective low-carbon growth strategies that will generate growth and help governments out of the short-term crisis.

A look back into economic history shows that industrial revolutions are full of innovation, creativity, investment and growth. Today, the climate and natural resource challenge demands a new energy revolution embracing the opportunities for low-carbon growth and prosperity and responding to the huge urgency and risk for businesses, governments and people.

### Conclusion

#### Renewing International Commitment

Institutions of the 21st century must permit a high-level dialogue on natural resources security to address the major challenge of achieving economic growth and human development in the context of acute scarcity of essential natural resources. New multistakeholder, networked institutions that embrace technological innovations for knowledge sharing, capacity building and informed decision-making are needed to respond to the challenge. 2012 will be an important year where the international community can exercise leadership for a renewed commitment to low-carbon and resource efficient growth and promote new kind of governance arrangements for a green economy.

#### New Models

##### New Model 1: A New Architecture for Future Growth and Prosperity

The turbulence in the current financial system has encouraged people to question the current models of governance, resource management and finance. Total resource management is needed: decision-making must respect the interplay among water, energy, food, climate, demographic shifts, economic growth and prosperity. Total resource management of food, agricultural resources, energy and water offers opportunities to exit the crisis and for short-term economic growth, laying the foundation for healthy, long-term growth. Integrated management would also improve efficiency and facilitate the trade-offs required between resources, particularly at the local level.

There are several essential enabling elements of the new model. Actionable and dynamically updated information for actors will help them understand and manage the resource trade-offs and risks involved, including appropriate data, analytics and metrics, and standard setting for comparability.

Robust datasets and metrics comparable across inputs are needed to define, quantify and scope the issues. The information currently available on the supply, demand, usage and sustainability of global food, water and energy supplies is incomplete, disaggregated and, in some cases, inaccessible. Improving the accuracy, consistency and transparency of such

<sup>5</sup> India is a good example. Facing important energy deficits and water constraints, the deployment of low-carbon infrastructure has become a priority. India's 12th Five-Year Plan (2012-2017) will present a roadmap to reduce carbon intensity by 20-25% by 2020.



information is an essential first step. Establishing a comprehensive approach to natural resource data collection – supply, demand, forecasts and transparency – is critical for decision-makers in the public and private sectors.

Based on robust data sets, comprehensive analysis, forecasts and growth models can be developed to draw key insights on the risks and opportunities for managing interlinked resources holistically and sustainably.

New tools for informed decision-making are needed, including actionable information platforms.

#### **New Model 2: Defining Actions**

As supply and demand issues and resource use connections and interactions are more fully understood, leaders can better target actions to address them with improved governance and policies.

New forms of governance are needed that are interdisciplinary and multistakeholder. Many people perceive a power vacuum in the world governance system with numerous political leaders behaving as if they are mesmerized by a potential global financial and social collapse that renders them incapable of taking action. Leaders need to take bold moves, climb out of their “silos” and set up a better form of joined-up governance that involves all stakeholders, including governments, the private sector and institutions, right down to the people “on the ground”. Governance must be more bottom-up, based on the needs of local people and including input from different sectors.

Effective, coordinated policies for resource use are needed. There are a range of effective low-carbon policies that can accelerate a transition to a low-carbon economy, such as performance standards for industry, autos, appliances, equipment and buildings; use of sound fiscal instruments for fossil fuels subsidies reform and for bringing new clean technologies down their learning curves; and structures and programmes that accelerate technological innovation.<sup>6</sup>

Better governance also means closing the gender gap. Women should be given a more central role in governance at the local level, as they are normally responsible for managing family resources. Empowering women also gives them the confidence to take control over their own contraception, with the added benefit of reducing population growth. It is estimated that providing 250 million women with access to voluntary contraception could result in an 8-15% drop in the global birth rate.

#### **New Model 3: Innovation**

Incentives should be provided for innovation in technology and business models to deliver for the public good. New enterprise structures should be designed that not only pursue profit, but also benefit society, and that reward enterprises that adopt these models. In California, for example, two new classes of corporations have been created for businesses that seek both profits and social good.<sup>7</sup> This is a promising development.

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Water Security  
Climate Change  
Energy Security  
New Energy Architecture  
Food Security  
Population Growth  
Oceans  
Women’s Empowerment  
Sustainable Consumption

<sup>6</sup> <http://www.climateworks.org/network/research/#Policies That Work>

<sup>7</sup> <http://venturebeat.com/2011/10/11/benefit-corporations-california/>



## Chapter 6

# Digital Revolution/ Evolution

### Agenda Items 2012

**Challenging the Legitimacy of the State.** Non-state actors are challenging the enforcement capacity and legitimacy of the state in the digital environment.

**Shifting Balance of Power.** There is a shift in the balance of power with the move from centralized groups and hierarchies towards more distributed networks.

**Demands for Transparency.** Efforts by governments worldwide to tighten control over Internet are creating tensions tied to citizens' privacy and freedom of expression, and demands for more transparency.

**A Fragmented Internet?** Social media and the need for security may generate moves towards a more compartmentalized and fragmented Internet.

### Context

The Internet has become a key pillar of global prosperity. Work, leisure, consumption and policy decisions, supply chains, safety systems and communications – every aspect of modern life is shaped by the continually evolving digital world. The digitalization of the world creates both extraordinary opportunities and unprecedented risks.

### The Digital Citizen

Greater access to information has increased and amplified demands for governments, corporations and other actors to be accountable for their actions. Will this make democracy stronger, education and knowledge more widespread, and give disenfranchised minorities a greater voice?

The digital citizen is influencing public opinion, both as consumer and producer of information. However, this explosion in activism carries risk: it fuels extremism and civil unrest. The digital world is challenging the legitimacy of existing governance structures, including sovereign states and global institutions.

The digital citizen is also a digital consumer. Technology makes information readily available to customers, sometimes even before a company's leadership is aware of it. Consumers let companies and peers know



**To realize the promises that the Internet holds for economic activity as well as for social interaction and democracy itself, we will need better frameworks for issues such as privacy, e-commerce, data security and accountability. This requires sustained international partnership and new models of global governance.**



Robert Madelin, Director, Center for China in the World Economy (CCWE), People's Republic of China

in real time if they are unsatisfied. Companies can no longer obscure product information and have limited options to react once negative feedback has been disseminated. Consumers have been empowered with information and a heightened ability to communicate anytime and anywhere.

### Data Everywhere, Any time

The benefits of the digital age are demonstrated by the increasing number of individuals and organizations connecting every day, everywhere and at any time to comment, interact and share information. The world is collecting more and more data in different jurisdictions and under different systems.

Individuals no longer know where their data is being kept. The process of transitioning from mainframes to servers, personal computers, mobile phone and cloud computing and beyond means a progressive degradation in security and privacy.

The newly emerging nexus between security, openness and privacy has become a crucial issue. The rising incidence of cyber attacks and breaches of data privacy and security has brought the issue to the top of the agenda for journalists, governments, policy-makers and activists. Security concerns place reputation and trust at risk. How can we reap the benefits of increasing digitalization, while minimizing risks to society and the individual?

### The Network Effect

The digital world has helped generate a shift from centralized groups and hierarchies towards more distributed networks, including grass-roots organizations and leaderless movements, making social networks their own new model. Networks have multiple benefits: they provide speed, scale and visibility faster than centralized groups, where control, context and volatility are complicated.

In networks, governance structures are pluri-centric and self-constructed; they emerge through negotiations between the users. In centralized groups the control of data is implicit, while in networks it is not. Who controls the data, user privacy and the rule of law? Rules are needed for when things go wrong to govern the structure and its use, and to minimize crime and vandalism.

Laws often lag behind technology. By enforcing regulations, we may be superimposing old ideas on a new phenomenon. But a social network is anti-hierarchical; it is not suited to superimposed structures. Knowing and understanding how a law is relevant, where it can be effective and how to fill the eventual gaps is a challenge that emphasizes the need for a more holistic approach to regulation and governance.

### Digital Underground Economy

With the world increasingly dependent on high-tech communications and banking systems, criminals are exploiting the same trends – social, political, technological, environmental, etc. – that drive legitimate market developments. The Internet is being used in the commission of serious crimes, including drug trafficking, human trafficking for sexual exploitation, illegal immigration, mass marketing fraud, tax fraud, currency counterfeiting and trade in prohibited firearms.

Recent years have witnessed the emergence of a digital underground economy in which large amounts of stolen data are traded and used for criminal purposes. In addition to substantial corporate losses and the unquantifiable emotional damage suffered by the victims of Internet-facilitated scams, new hybrid threats have emerged that target critical infrastructure. The scale of these activities represents a considerable challenge to the authorities and service providers.

### Governance in a Digital World

The growth of the information society poses new governance challenges for the global community. A deeper understanding of foundational values, norms and responsibilities is required. The rights, needs and responsibilities of enterprises, organizations and nations must align with those of civil society and individuals. The ability to freely discover, innovate and share knowledge must be balanced with the need to protect, control and commercialize proprietary interests.



**Digital governance is essential for the success of future enterprises, continued innovation, and increased job growth. To ensure that enterprises are equipped to address emerging challenges, a collaborative effort is needed to calibrate and advance current risk management efforts and ensure that they keep pace with the rapidly changing cyberthreat environment. Gaps in understanding can place enterprise brand, reputation and trust at risk and also impede broader Internet security.**



Paul Nicholas, Senior Director, Microsoft Corporation, USA

We need governance, not in the sense of regulation or policy, but in terms of defining roles and responsibilities of the actors within the system. Building new governance models requires well-formed goals and metrics that are mutually recognized by all stakeholders. Governance frameworks should be opt-in and multi-jurisdictional with clear accountability and independent audit. They must include informal as well as formal structures of power and influence. The goal of self-governance can be achieved by capturing the collective intelligence and best practice sharing of online social networking tools. Contractual law, rather than regulation, can be better harnessed by and among the relevant stakeholders.

#### Who Owns What?

By making possible near-zero cost copying and global distribution of works, the Internet has undermined the business models associated with copyright. These pressures are likely to intensify as digital content distribution moves to a services model rather than a goods-for-sale model based upon streaming content from the cloud.

Markets in digital content and the legal framework supporting those markets have not kept pace with these changes. New marketplaces for digital content rights are needed that are characterized by low transaction costs, speed and transparency. Such markets can encourage competition by making access easier for new and innovative entrants. They can also be governed by codes of practice or protocols reflecting the balance of interests involved in the digital rights exchange.

#### New Models

The Internet has taken its place at the centre of human society without a legal or governance mandate. Despite a complex web of quasi-autonomous and semi-accountable structures, it remains its own master. As we enter 2012, new models for governance of the information society are emerging.

#### New Model 1: Transforming Learning

Educators have traditionally looked at e-education as using the same model but equipping teachers and classrooms with digital technologies. Combinations of digital tools and skills are changing the way people live, but too little is embedded in learning environments. We are seeing a shift from digital support to disseminate information towards a new model of collaborative learning that uses multi-sensory interaction and participation to nurture creativity and thinking. This calls for a coalition of teachers, students, multimedia trainers, start-ups, thought leaders and global companies to deploy rich-media solutions to transform learning.

#### New Model 2: Trust Frameworks – Collective Enforcement and Early Warning

If nation states are losing legitimacy and control, can networks and multistakeholder models take over?

The evolution of the Internet and related digital technologies demand a coordinated and collaborative response that harnesses the expertise of a wide range of security-concerned stakeholders, aimed at disrupting and preventing cybercrime and other forms of online criminal activity. Effective trust networks are essential, including a multidisciplinary online platform for knowledge and information exchange on developing threats and innovative disruption and mitigation measures (e.g. the Forum's Risk Response Network).

Consensus-based rules systems should be more fully utilized to reduce risks, streamline costs and create data leverage. By more fully integrating the “rules with the tools”, trust frameworks – largely based on contract law – can be established at Internet scale. This model was conceived by the Global Agenda Council on Information & Communication Technologies

#### New Model 3: An Informed Society

The world needs informed digital citizens who are able to participate fully in the information society.

An informed citizenry can be created through policies that:

- Commit to transparency and to communicating pertinent information to stakeholders
- Build media literacy into education systems
- Support independent media, especially in the developing world
- Foster connectivity and open, competitive media markets
- Protect media freedom, intellectual property and the openness of the Internet



**Media readership is setting the agenda now as much as journalists and media owners.**



Julia Hobsbawm, Chairman and Chief Executive Officer, Editorial Intelligence, United Kingdom

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Informed Societies  
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Information and Communication Technologies  
Organized Crime  
Intellectual Property  
Future of Government  
Digital Health  
Aviation, Travel & Tourism





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